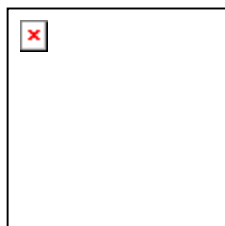




AUSTRALIAN CAPITAL TERRITORY

COMMENTS ON THE COMMONWEALTH GRANTS COMMISSION'S: *PROPOSED MODIFICATION TO THE ASSESSMENT OF RECURRENT AND CAPITAL EXPENDITURE IN THE ROADS, DEPRECIATION AND INVESTMENT CATEGORIES*

December 2009



ASSESSMENT OF RECURRENT AND CAPITAL EXPENDITURE IN THE ROADS, DEPRECIATION AND INVESTMENT CATEGORIES

Commonwealth Grants Commission proposal

Commonwealth Grants Commission (Commission) staff are considering the use of the National Transport Commission's (NTC) recurrent expenditures (*categories A to E, G and H*) to calculate disability weights for the roads category and the use of capital expenditures (*category F*) to calculate weights for roads investment and depreciation.

The *category F* expenditures could include all or part of *F1* expenses – pavement improvement; *F2* expenses – bridge improvements; and *F3* expenses - land acquisition, earthworks, other extensions and improvements.

The Commission is seeking State views on the conceptual merits / demerits of adopting this change.

ACT response

Treatment of *category F* expenses

In its submission to *Staff Discussion Paper 2007/24-S: Assessing Roads Expenses in the 2010 Review*, the ACT proposed the use of the NTC's 2005 *Third Heavy Vehicle Road Pricing Determination: Technical Report* as the basis of the roads assessment on the grounds that the NTC's analysis and underpinning calculations for heavy vehicle charging captured the cost and demand drivers associated with State arterial roads maintenance.

In the context of the treatment of NTC category expenses, the ACT suggested that *category F* be excluded from the roads category assessment on the basis that the focus of the assessment was on roads maintenance costs (recurrent costs), rather than capital expenditure costs. The Commission's latest proposal moves towards the ACT's preferred position – in effect, separately recognising recurrent and capital road impacts.

Like the Commission, the ACT considers that land transactions and costs should not impact the relativities. Consistent with this view, the Commission excluded *category F3* expenses from the average weights derived for the roads assessment as part of the draft 2010 Review report.

The proposal to possibly include *category F3* expenses to calculate weights for roads investment and depreciation will introduce an element of land transactions into the assessments, which is of some concern.

However, the proposal to include total *category F* expenses (*F1, F2 and F3*) is supported as the advantages are considered to outweigh the disadvantages given:

- using the NTC's work allows all roads related capital expenses to be captured, and calculating capital weights in this way, more accurately captures the capital drivers of roads investment and depreciation;
- the proposed approach is consistent with the assessment guidelines and the implicit requirement to adopt the most conceptually rigorous and reliable method available;
- the Commission's analysis indicates that the land component of *category F3* expenses is minor, at around only 3 per cent of total *F3* expenses; and
- in terms of the roads investment and depreciation assessment categories, not including *category F3* expenses is more likely to move the assessment further away from equalisation than would occur if they are included.

Excluding *category F3* expenses would ignore, as noted by the Northern Territory in submissions to the 2010 Review, a substantial amount of capital roads related expenditure. This would have the effect of understating the relative importance of capital expenditures.

Given that the proposal more accurately captures the relative importance of roads capital expenditures on roads investment and depreciation, it is unclear as to why, overall, any jurisdiction would oppose the Commission's proposal.

Bridges and Tunnels

In the context of using *category F* expenses to calculate weights for roads investment and depreciation, it should be noted that, consistent with past roads submissions, the ACT's support for the Commission's proposal does not extend to the way in which *category F2 - Bridge improvements* are allocated, that is, to traffic volume (15%) and length (85%) disabilities.

The Commission's assumption that above average road length and heavy vehicle use reflects need for bridges is not supported by the NTC's own analysis which suggests that most of the costs of bridge construction are related to the 'costs of holding the bridge up'.¹ As such, the construction type bridge expenses, which comprise most of *category C - bridge rehabilitation* and all of *category F2 - bridge improvements*, should be assessed equal per capita (EPC).

This matter has been raised as it is not clear whether the Commission has yet considered and/or addressed this issue for the 2010 Review.

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¹ National Transport Commission, 2005, *Third Heavy Vehicle Road Pricing Determination: Technical Report*, page 34.